# CORE EQUITY STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 30 JUNE 2024

CORONATION TRUST IS EARNED™

## LONG TERM OBJECTIVE

The Coronation Core Equity Strategy is our benchmark cognisant offering within our equity product range. The Strategy is constructed with reference to a benchmark, and seeks to outperform the equity market over meaningful periods (defined as at least 5 years).

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their long-term underlying value (fair value) through extensive proprietary research. In calculating fair values, through our fundamental research, we focus on through-the-cycle normalised earnings and/or free cash flows using a long-term time horizon. The Portfolio is constructed with reference to a benchmark based on the relative risk-adjusted upside to fair value of each underlying security.

## STRATEGY RETURNS GROSS OF FEES

| Period | Strategy | Benchmark | Active Return |
|---|---|---|---|
| Since Inception (cumulative) | 1,648.7% | 1,209.1% | 439.6% |
| Since Inception p.a. | 15.1% | 13.5% | 1.6% |
| Latest 20 years p.a. | 15.4% | 13.9% | 1.5% |
| Latest 15 years p.a. | 12.6% | 11.6% | 1.0% |
| Latest 10 years p.a. | 7.0% | 6.7% | 0.3% |
| Latest 5 years p.a. | 9.4% | 8.7% | 0.7% |
| Latest 1 year | 9.7% | 10.0% | (0.3)% |
| Year to date | 6.7% | 5.7% | 1.0% |
| Month | 3.4% | 4.2% | (0.8)% |

## TOP 10 HOLDINGS

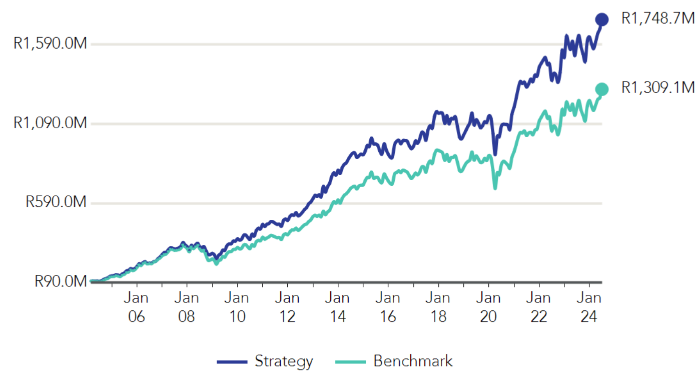
| Holding | % Strategy |
|---|---|
| PROSUS | 9.2% |
| FIRSTRAND LIMITED | 7.5% |
| STANDARD BANK GROUP LTD | 7.4% |
| CIE FINANCIERE RICHEMO-A REG | 5.8% |
| BRITISH AMERICAN TOBACCO PLC | 5.0% |
| ASPEN PHARMACARE HOLDINGS LTD | 4.6% |
| NASPERS LIMITED | 4.5% |
| ANGLO AMERICAN PLC | 4.5% |
| NEDBANK GROUP LIMITED | 4.5% |
| GLENCORE PLC | 3.5% |

## GENERAL INFORMATION

| | |
|---|---|
| Inception Date | 01 March 2004 |
| Strategy Size * | R8.10 billion |
| Strategy Status | Open |
| Mandate Benchmark | JSE Capped Shareholder Weighted Index (Capped SWIX*) |
| Dealing Frequency | Daily |
| Base Currency | ZAR |

*Strategy assets under management as at the most recent quarter end.

## GROWTH OF R100M INVESTMENT



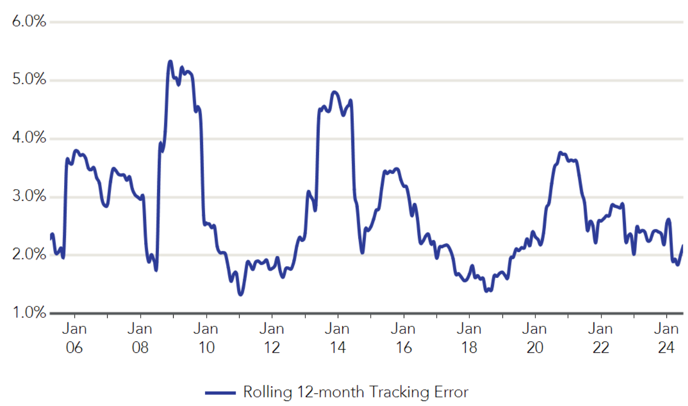

Benchmark: JSE Capped Shareholder Weighted Index (Capped SWIX*)

*FTSE/JSE Capped Shareholder Weighted Index from 01 April 2022. Previously FTSE/JSE Africa Shareholder Weighted Index, excluding real estate (inception to 30 November 2006) and FTSE/JSE Africa Shareholder Weighted Index (01 December 2006 to 31 March 2022).

## PERFORMANCE & RISK STATISTICS (Since inception)

| | Strategy | Benchmark |
|---|---|---|
| Average Annual Return | 16.3% | 14.7% |
| Tracking Error | 2.9% | |
| Information Ratio | 0.6 | |
| Annualised Standard Deviation | 14.3% | 14.6% |
| Maximum Drawdown | (30.1)% | (37.5)% |

## TRACKING ERROR



## SECTOR EXPOSURE

| Sector | % Strategy |
|---|---|
| Financials | 26.0% |
| Consumer Services | 23.1% |
| Basic Materials | 21.0% |
| Technology | 14.5% |
| Consumer Goods | 8.0% |
| Health Care | 4.6% |
| Telecommunications | 2.7% |
| Interest Bearing | 0.1% |

## PORTFOLIO MANAGER

Quinton Ivan - BBusSc, Bcom (Hons), CA (SA), CFA

Quinton is Head of Coronation's Core Equity Strategy. He also co-manages the Presidio Hedge Fund. Quinton has 18 years of investment experience.

## REGULATORY DISCLOSURE AND DISCLAIMER

## REVIEW FOR THE QUARTER

The Strategy had a good quarter, outperforming the benchmark, while returns over five years and longer time periods also remain ahead of the benchmark. Market strength continued into Q2-24 with the MSCI All Country World Index returning 3% for the quarter (USD) bringing year-to-date (YTD) returns to 11%. Global economic growth remained reasonably resilient despite the higher-for-longer rate environment. Returns from the S&P 500 (+4% in USD for the quarter) were extremely narrow as three shares (Nvidia, Microsoft and Apple) accounted for more than 90% of the gain. The equal-weighted S&P underperformed the S&P by a whopping 29% over the last 18 months.

Chinese growth remains below previous levels as high debt levels, a weak property market, and subdued confidence weigh on the economy. Notwithstanding the risks of investing in China, many high-quality consumer businesses trade at low prices making them attractive.

Geopolitical tensions persist, with the ongoing conflict in the Middle East and Ukraine-Russia. The uncertainty is compounded by half the world having gone or still going to the polls this year. Democracy prevailed, as peaceful elections passed in emerging markets including India, Mexico, Indonesia, and South Africa during Q2-24 and France and the UK in early Q3-24. All eyes are on the US election in Q4-24, with the odds of a Republican victory increasing. A Trump presidency could have major ramifications for decarbonisation, the fiscal outlook (more tax cuts) and global geopolitics. Traditional safe havens like gold have remained strong in the face of this uncertainty.

It was an eventful second quarter for SA with the election outcome driving a rally in domestic assets. The country's governing party, the ANC, lost its outright majority but the spirit of democracy prevailed as the ANC oversaw a peaceful transition to a centrist coalition government (whilst retaining the presidency). This government has broad representation from across the political spectrum and some encouraging new appointments bringing the prospect of better accountability but also risks policy paralysis as decision-making is more onerous. We think the outcome is marginally positive albeit the challenges of decades of underinvestment in infrastructure, failing municipal service delivery, poor educational outcomes, a fiscally constrained government, and restrictive policy remain. Whilst there is upside risk from better management, a return of confidence and lower loadshedding, our base case remains a low-growth environment with ongoing infrastructure challenges. At the time of writing, the country has been free of loadshedding for more than 100 days. Given material underinvestment over many decades, we expect intermittent loadshedding to remain a part of life in SA, but at levels below the crisis levels of 2023. The currency strengthened 3% against the USD during the quarter and is now broadly flat YTD.

The FTSE/JSE Capped Shareholder Weighted Index (CSWIX) returned 8% for the quarter bringing YTD returns to 6% (given the negative first quarter). The Strategy's holdings include global stocks listed on the JSE and selected resources and domestic stocks. Domestic stocks continue to offer good opportunities for stock picking as the gap between winning and losing businesses has widened in the tough economic environment. We retain a strong preference for the winners who can flourish even in a low growth environment by gaining market share.

The Financials Index (with its predominantly domestic exposure) drove Q2-24 market returns with a buoyant 18% return. Trading updates from the banks continued to indicate a weak economic environment with elevated credit losses. We were pleased with good earnings delivery from the Strategy's core holdings in winning banks like FirstRand. Banks are leveraged to economic outcomes and any uptick in growth would both reduce credit losses from high current levels and support advances growth.

The Industrials Index rose 5% for the quarter (+6% for the YTD). The Strategy's core holdings include many of the global stocks listed in SA (Naspers/Prosus, Richemont, Aspen, Bidcorp, British American Tobacco, and Anheuser-Busch InBev) for whom the rand strength was a headwind. Whilst larger holdings such as Richemont and Bidcorp detracted during the quarter, we believe both operate in growing markets with strong franchises that will take market share over time. Bidcorp is a food services business offering a one-stop supply solution for restaurants, food and hotel chains across 35 countries on five continents. The business benefits from scale and continues to grow organically by capturing the secular shift to out-of-home consumption as well as by consolidating a fragmented industry. We believe the current valuation does not adequately capture the long-term strong growth that Bidcorp is able to deliver.

Key domestic holdings include Dis-Chem, ADvTECH and WeBuyCars (WBC); all of whom are expected to continue gaining market share. During the quarter, WBC was unbundled from Transaction Capital (TCP) and listed directly on the JSE. We believe this is a fantastic business that was being undervalued in the TCP structure. WBC is a strong, growing business with a long-term market share opportunity. Customers value its convenient service, fair prices, range of product, and trusted brand. We expect WBC to continue taking share from independent dealerships.

The resource sector returned 4% for the quarter (+2% for the YTD) boosted by a take-out offer for Anglo American. Miners face increasing difficulty in bringing on new supply in an environment with increased regulatory scrutiny, community engagement requirements and ESG pressures. In addition, ore bodies are more complex, more remote, and deeper. This strengthens the position of owners of existing tier-one assets whilst supporting management decisions to buy assets rather than build. Considering this, BHP Billiton announced a takeover bid for Anglo American hoping to secure their enviable portfolio of copper assets. The Strategy benefited from its overweight holding in Anglo American. With the bid gone (for now), focus has shifted to Anglo American's own value creation plan; to exit less desirable commodities and refocus its portfolio on copper. This comes with high execution risk. The Strategy holds an underweight position in the sector, given reasonably full valuations. The underweight position in gold shares contributed this quarter on the back of a more stable gold price and Gold Field's production disappointment. It remains a detractor over the year given the spike in the gold price. We do not believe current gold equity valuations offer sufficient margin of safety to increase our holding.

We remain optimistic about future returns given our basket of well-priced locally-listed global stocks complemented by a selection of winning domestic businesses.